



**HART, MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

# HART PUBLIC SCHOOLS

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# REHMANN ROBSON

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## INDEPENDENT AUDITORS' REPORT

September 20, 2005

Board of Education  
Hart Public Schools  
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **HART PUBLIC SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hart Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

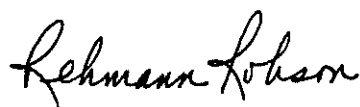
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools as of June 30, 2005, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September 20, 2005 on our consideration of Hart Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hart Public Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of Hart Public Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## Management's Discussion and Analysis

As management of Hart Public Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

### Financial Highlights

- General Fund: The blended student count remained very close to last year keeping state and local revenue static. However, the increase in wages, insurance and retirement combined with other unavoidable economic factors increased expenses over a half million dollars. Several budget cuts were made to delay the purchase of textbooks one more year, shorten the school year and reduce staff. Still the budget was short by over \$300,000 lowering the fund balance in General Fund to \$766,647 or 6% of expenditures.
- Athletic Fund: This year this fund accumulated a deficit balance of \$264,934. This was due to a combination of revenue and expenditures coming in under and over budget respectively. This was covered by transferring a greater amount from General Fund.
- Debt Fund: For the 2004/05 the debt levy was lowered from 4.29 to 2.49 mills. Due to the increase in property values more taxes were being collected than anticipated. By lowering the levy, the debt service fund balances were brought to an acceptable level.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary schedules and combining statements for non-major and fiduciary funds.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 9-11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains ten individual governmental funds and one agency fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 1995 debt service funds, which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. These funds include three capital projects fund and three debt service funds, a food service fund, and an athletic special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Hart Public Schools' programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-31 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 32-36 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,306,032 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of fixed assets has a significant impact on this balance.

A large portion (41%) of the District's net assets is restricted for future debt service payments while (18%) of District net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Hart Public School's Net Assets

	<b>2003-2004 Governmental Activities</b>	<b>2004-2005 Governmental Activities</b>
Current and other assets	\$ 3,645,248	\$ 3,817,513
Capital assets, net	<u>6,940,084</u>	<u>6,650,330</u>
Total assets	<u>10,585,332</u>	<u>10,467,843</u>
Current liabilities	1,721,006	2,318,787
Long-term liabilities outstanding	<u>6,358,329</u>	<u>5,843,024</u>
Total liabilities	<u>8,079,335</u>	<u>8,161,811</u>
Net assets:		
Invested in capital assets, net of related debt	390,791	422,592
Restricted	1,127,795	2,070,405
Unrestricted	<u>987,411</u>	<u>813,035</u>
<b>Total net assets</b>	<b><u>\$ 2,505,997</u></b>	<b><u>\$ 2,306,032</u></b>

An additional portion of the District's net assets (7%) represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (30%) may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, for the District as a whole, as well as positive fund balances for its separate governmental funds.

#### Hart Public School's Changes in Net Assets

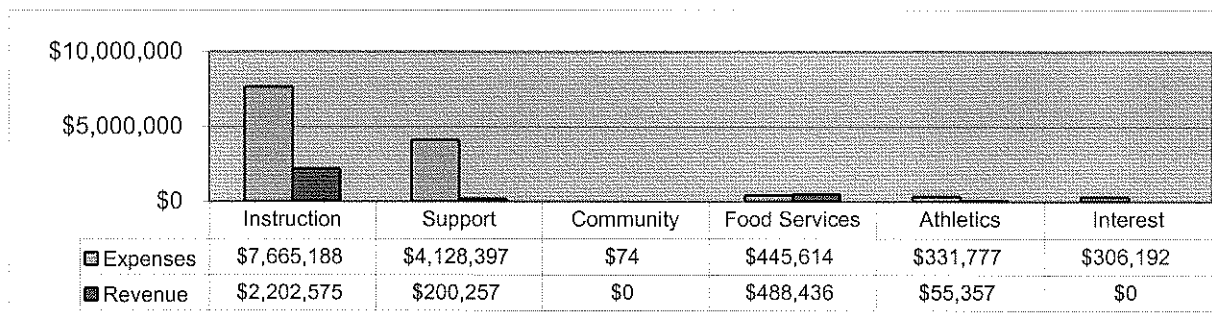
	<b>2003-2004 Governmental Activities</b>	<b>2004-2005 Governmental Activities</b>
<b>Program revenue:</b>		
Charges for services	\$ 270,822	\$ 308,093
Operating grants and contributions	2,776,755	2,638,532
<b>General revenue:</b>		
Property taxes - operations	1,859,234	1,994,615
Property taxes - debt service	967,528	602,084
Grants and contributions not restricted to specific programs	6,845,501	6,966,488
USF and other Funds	45,909	41,129
Unrestricted investment earnings	8,636	13,265
Net gain on disposal of capital assets	<u>-</u>	<u>113,071</u>
<b>Total revenue</b>	<b><u>12,774,435</u></b>	<b><u>12,572,276</u></b>

	<b>2003-2004 Governmental Activities</b>	<b>2004-2005 Governmental Activities</b>
<b>Expenses:</b>		
Instruction	\$ 7,033,871	\$ 7,665,188
Supporting services	4,016,192	4,128,397
Community services	612	74
Food services	477,767	445,614
Athletics	340,503	331,777
Interest on long-term debt	<u>348,458</u>	<u>306,192</u>
<b>Total expenses</b>	<b><u>12,217,403</u></b>	<b><u>12,877,242</u></b>
<b>Increase (decrease) in net assets</b>	<b>557,032</b>	<b>(199,965)</b>
Net assets, beginning of year	<u>1,948,965</u>	<u>2,505,997</u>
<b>Net assets, end of year</b>	<b><u>\$ 2,505,997</u></b>	<b><u>\$ 2,306,032</u></b>

**Governmental activities.** Net assets decreased by \$199,965. Key elements of this decrease are as follows:

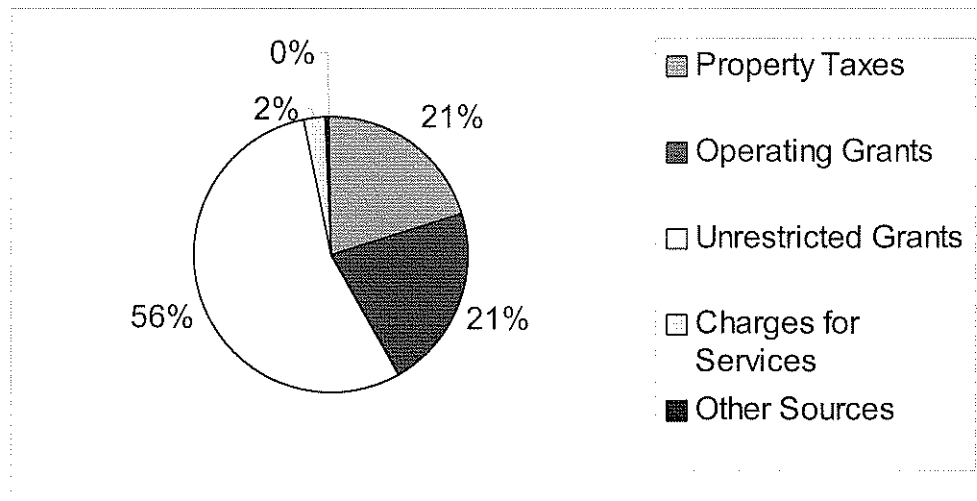
- Revenues for governmental activities decreased by \$202,159, due to:
  - A decrease in property taxes for debt service of \$365,444 due to a decrease in the debt service millage from 4.29 mills in 2003 to 2.49 mills in 2004.
  - This decrease was offset by an increase in unrestricted aid of \$120,987 due to the fact that there was no proration of state financial aid for school year 2004-2005.
- Expenses of governmental activities increased by \$659,839, due to:
  - General increases for instruction and supporting services of \$631,317 and \$112,205, respectively.
  - These increases were offset by small decreases in the remaining functional categories.

## Expenses and Program Revenues – Government-wide





## Revenues by Source – Government-wide



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### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$766,647. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 6.5 percent of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$303,586 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with supporting the District's operations.

### General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and related primarily to changes in grant allocations received after the initial budget was prepared. Variations in expenses were relatively minor.

### Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to \$6,650,330 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets during the current fiscal year included the following:

**Hart Public School's Capital Assets**

(net of depreciation)

June 30, 2005

Land	\$ 118,307
Construction in progress	57,031
Land and improvements	685,662
Buildings and improvements	5,286,377
Equipment and furniture	<u>502,953</u>
<b>Total</b>	<b><u>\$6,650,330</u></b>

Additional information on the District's capital assets can be found in Note 5 on page 25-26 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total long-term debt outstanding of \$6,227,738.

The District's total debt decreased by \$478,926 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note 7 on pages 27-29 of this report.

**Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- General Fund: Because retirement and insurance costs continue to escalate it is projected that the district will use close to \$254,304 from the current fund balance. The closing of our Elbridge elementary building, early retirement incentive, and reduction of administrative, custodial and other support personnel will reduce expenditures for the 2005/06 year.
- Capital Projects: Two buildings were sold resulting in the budgeting of a six-pod portable and accessories during 2005/06.
- Athletics: Hart Board of Education made the decision to cut the athletic director position at the high school. The projected savings is \$44,516.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager for Hart Public Schools  
301 West Johnson Street  
Hart, Michigan 49420

**Hart Public Schools**  
**Statement of Net Assets**  
**June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,353,965
Accounts receivable	37,230
Due from other governmental units	2,417,874
Inventories	8,444
Total current assets	<u>3,817,513</u>
Noncurrent assets:	
Land	118,307
Construction in progress	57,031
Capital assets	12,064,475
Less accumulated depreciation	<u>(5,589,483)</u>
Total noncurrent assets	<u>6,650,330</u>
Total assets	<u>10,467,843</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	54,747
Accrued expenses	1,170,583
Unearned revenue	577,156
Current portion of long-term debt	516,301
Total current liabilities	<u>2,318,787</u>
Noncurrent liabilities	
Long term compensated absences/early retirement	131,587
Non-current portion of long-term debt	5,711,437
Total noncurrent liabilities	<u>5,843,024</u>
Total liabilities	<u>8,161,811</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	422,592
Restricted for debt service	901,255
Restricted for capital projects	148,925
Restricted for performing arts	20,225
Unrestricted	813,035
Total net assets	<u>\$ 2,306,032</u>

The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Governmental activities:					
Instruction	\$ 7,665,188	\$ 40,611	\$ 2,161,964	\$ -	\$ (5,462,613)
Supporting services	4,128,397	74,505	125,752	-	(3,928,140)
Community services	74	-	-	-	(74)
Food services	445,614	137,620	350,816	-	42,822
Athletics	331,777	55,357	-	-	(276,420)
Interest on long-term debt	306,192	-	-	-	(306,192)
Total governmental activities	\$ 12,877,242	\$ 308,093	\$ 2,638,532	\$ -	\$ (9,930,617)

(Continued)

The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Changes in net assets</b>	
Net expense	<u>\$ (9,930,617)</u>
General revenues:	
Property taxes - operations	1,994,615
Property taxes - debt service	602,084
Grants and contributions not restricted to specific programs	6,966,488
Universal service funds	41,129
Unrestricted investment earnings	13,265
Gain on disposal of capital assets	324,447
Special item	
Capital asset impairment loss	<u>(211,376)</u>
Total general revenues and special item	<u>9,730,652</u>
Change in net assets	(199,965)
Net assets, beginning of year, as restated	<u>2,505,997</u>
<b>Net assets, end of year</b>	<u><u>\$ 2,306,032</u></u>

The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General</u>	<u>1995 Debt Service</u>	<u>Non- Major Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 671,162	\$ 624,463	\$ 58,340	\$ 1,353,965
Due from other funds	1,181,717	119,921	532,593	1,834,231
Due from other governmental units	1,989,299	-	177,462	2,166,761
Accounts receivable	7,230	-	30,000	37,230
Inventory	-	-	8,444	8,444
	<u>-</u>	<u>-</u>	<u>8,444</u>	<u>8,444</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 3,849,408</u>	<u>\$ 744,384</u>	<u>\$ 806,839</u>	<u>\$ 5,400,631</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 45,807	\$ -	\$ 8,941	\$ 54,748
Accrued expenses	1,096,494	-	9,284	1,105,778
Due to other funds	1,570,520	109,036	154,675	1,834,231
Deferred revenue	369,940	-	207,216	577,156
	<u>3,082,761</u>	<u>109,036</u>	<u>380,116</u>	<u>3,571,913</u>
<b>Total liabilities</b>	<u>3,082,761</u>	<u>109,036</u>	<u>380,116</u>	<u>3,571,913</u>
<b>Fund equity</b>				
Fund balances:				
Reserved:				
Debt service	-	635,348	265,907	901,255
Capital projects	-	-	148,925	148,925
Performing arts	20,225	-	-	20,225
Unreserved				
Undesignated special revenue funds	-	-	11,891	11,891
Undesignated general fund	746,422	-	-	746,422
	<u>766,647</u>	<u>635,348</u>	<u>426,723</u>	<u>1,828,718</u>
<b>Total fund equity</b>	<u>766,647</u>	<u>635,348</u>	<u>426,723</u>	<u>1,828,718</u>
<b><u>TOTAL LIABILITIES AND FUND EQUITY</u></b>	<u>\$ 3,849,408</u>	<u>\$ 744,384</u>	<u>\$ 806,839</u>	<u>\$ 5,400,631</u>

The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2005**

Fund balances - total governmental funds	\$ 1,828,718
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	12,239,813
Deduct - accumulated depreciation	(5,589,483)

Certain assets, such as long-term receivables, are not due and receivable in the current period and therefore are not reported in the funds.

Add - long-term receivables	251,113
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - long-term debt payable	(6,227,738)
Deduct - accrued interest on long-term debt payable	(64,804)
Deduct - compensated absences	<u>(131,587)</u>

Net assets of governmental activities	<u><u>\$ 2,306,032</u></u>
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The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>General</u>	<u>1995 Debt Service</u>	<u>Non- Major Funds</u>	<u>Total</u>
<b>Revenue</b>				
Local sources	\$ 2,262,451	\$ 614,228	\$ 202,892	\$ 3,079,571
State sources	7,763,346	-	32,736	7,796,082
Federal sources	1,376,154	-	317,188	1,693,342
	<u>11,401,951</u>	<u>614,228</u>	<u>552,816</u>	<u>12,568,995</u>
<b>Expenditures</b>				
Current				
Instruction	7,440,887	-	-	7,440,887
Supporting services	3,944,653	-	-	3,944,653
Community services	74	-	-	74
Food services	-	-	430,475	430,475
Athletics	-	-	320,422	320,422
Capital outlay	1,750	-	394,708	396,458
Debt service				
Principal	13,926	275,000	190,000	478,926
Interest	10,211	15,469	278,140	303,820
	<u>11,411,501</u>	<u>290,469</u>	<u>1,613,745</u>	<u>13,315,715</u>
Total expenditures	<u>11,411,501</u>	<u>290,469</u>	<u>1,613,745</u>	<u>13,315,715</u>
Revenue over (under) expenditures	<u>(9,550)</u>	<u>323,759</u>	<u>(1,060,929)</u>	<u>(746,720)</u>
<b>Other financing sources (uses)</b>				
Insurance recoveries	-	-	312,761	312,761
Proceeds from sale of capital assets	2,000	-	50,980	52,980
Transfers in	57,985	-	757,706	815,691
Transfers out	(354,021)	(403,685)	(57,985)	(815,691)
	<u>(294,036)</u>	<u>(403,685)</u>	<u>1,063,462</u>	<u>365,741</u>
Total other financing sources (uses)	<u>(294,036)</u>	<u>(403,685)</u>	<u>1,063,462</u>	<u>365,741</u>
Net changes in fund balances	(303,586)	(79,926)	2,533	(380,979)
Fund balances, beginning of year as restated	<u>1,070,233</u>	<u>715,274</u>	<u>424,190</u>	<u>2,209,697</u>
<b>Fund balances, end of year</b>	<u>\$ 766,647</u>	<u>\$ 635,348</u>	<u>\$ 426,723</u>	<u>\$ 1,828,718</u>

The accompanying notes are an integral part of these financial statements.



**Hart Public Schools**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds \$ (380,979)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - purchases of capital assets	341,398
Deduct - depreciation expense	(378,482)
Deduct - insurance recoveries	(312,761)
Deduct - proceeds from sale of capital assets	(52,980)
Add - gain on sale of capital assets	324,447
Deduct - capital asset impairment loss	(211,376)

Installment purchase proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term liabilities	478,926
---	---------

Some revenue reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds.

Add - increase in long-term receivables	(4,789)
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrued interest payable on bonds	(2,373)
Deduct - increase in the accrual for compensated absences	(996)

Change in net assets of governmental activities	\$ (199,965)
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The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
Local sources	\$ 2,251,998	\$ 2,273,201	\$ 2,262,451	\$ (10,750)
State sources	7,552,844	7,759,274	7,763,346	4,072
Federal sources	1,708,895	1,544,263	1,376,154	(168,109)
Total revenue	11,513,737	11,576,738	11,401,951	(174,787)
<b>Expenditures</b>				
Current				
Instructional	7,519,557	7,616,092	7,440,887	175,205
Supporting services	4,033,219	4,064,057	3,944,653	119,404
Community services	1,297	-	74	(74)
Capital outlay	3,585	-	1,750	(1,750)
Debt service				
Principal	-	-	13,926	(13,926)
Interest	-	-	10,211	(10,211)
Total expenditures	11,557,658	11,680,149	11,411,501	268,648
Revenue over (under) expenditures	(43,921)	(103,411)	(9,550)	93,861
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	-	2,000	2,000
Transfers in	152,930	124,018	57,985	(66,033)
Transfers out	(425,173)	(352,857)	(354,021)	(1,164)
Total other financing sources (uses)	(272,243)	(228,839)	(294,036)	(65,197)
Net changes in fund balance	(316,164)	(332,250)	(303,586)	28,664
Fund balance, beginning of year, as restated	1,070,233	1,070,233	1,070,233	-
<b>Fund balance, end of year</b>	<b>\$ 754,069</b>	<b>\$ 737,983</b>	<b>\$ 766,647</b>	<b>\$ 28,664</b>

The accompanying notes are an integral part of these financial statements.

**Hart Public Schools**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2005**

**ASSETS**

Cash and cash equivalents	<u>\$ 53,767</u>
<b>Total Assets</b>	<b><u><u>\$ 53,767</u></u></b>

**LIABILITIES**

Due to student groups	<u>\$ 53,767</u>
<b>Total Liabilities</b>	<b><u><u>\$ 53,767</u></u></b>

The accompanying notes are an integral part of these financial statements.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Hart Public Schools (the "School" or "District") consistently applied in the preparation of the accompanying financial statements follows.

#### ***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Hart Public Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the School reporting entity which includes no component units.

#### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, expenditure driven grant revenue, state aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 1995 debt service fund accounts for the accumulation of resources for the payment of principal and interest on the 1995 middle school building bonds.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *capital project funds* account for funds accumulated for construction projects.

The *fiduciary fund* accounts for resources held on the behalf of other individuals and governments.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Budgets and Budgetary Accounting**

The School follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School considers the debt service payment schedule to be an adequate budgetary control. The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the School are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the School. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

### **Encumbrances**

The School does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

### **Property Taxes**

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2004 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the School as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the School and are equalized by the State of Michigan.

### **Cash and Cash Equivalents**

The School considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Statutory Authority**

- a. Michigan law authorizes the District to deposit and invest in:
- b. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- c. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- d. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- e. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- f. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- g. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

### **Receivables**

The School follows the practice of recording as receivables revenues that have been earned but not yet received.

### **Inventories**

Inventories consist of food and other supplies. Inventories are stated at cost (first-in, first-out).

### **Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Land improvements	20
Building and improvements	10-45
Equipment and furniture	5-20

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Insurance Refunds**

The School receives surplus distributions from SET/SEG Property/Casualty Pool for insurance premiums paid into the Pool in prior years. The receipt of premium refunds for prior years are recorded as revenue from Local Sources. If the School were to receive premium refunds for their current fiscal year, these refunds would offset the premium expense in the year received.

### **Salaries Payable and Accrued Employee Benefits**

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The School pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

### **Vested Termination Benefits**

Most employees of the School are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method and is shown on the statement of net assets.

### **Reserves and Designations of Fund Balance/Restricted Net Assets**

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.



# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Durant Related Issues**

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; *the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA)* or in fifteen annual payments. Hart Public Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Interfund Transactions**

During the course of normal operations, the School has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the School.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### 2. STATE OF MICHIGAN SCHOOL AID

The School reports State of Michigan school aid in the fiscal year in which the School is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 68% of general fund revenue to the District during the 2005 fiscal year.

### 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2005 the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Community services	\$ -	\$ 74	\$ 74
Capital outlay	-	1,750	1,750
Principal	-	13,926	13,926
Interest	-	10,211	10,211
Transfers out	352,857	354,021	1,164
Food Service			
Transfers out	-	57,985	57,985
Athletics			
Support services	312,726	320,422	7,696

### 4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$1,353,965	\$53,767	\$1,407,732

These deposits are in three (3) financial institutions located in Michigan. State policy limits the School's investing options to financial institutions located in Michigan. All accounts are in the name of the School and a specific fund or common account. They are recorded in School records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Mutual Funds			
MILAF Plus – PFM Management Series	N/A	\$459,078	AAAm

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### *Investment and Deposit Risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$1,398,698 of the District's bank balance of \$1,606,924 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments, the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in mutual funds. All investments held at year end are reported above.

## 5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>
Governmental activities				
Nondepreciable capital assets:				
Land	\$ 118,307	\$ -	\$ -	\$ 118,307
Construction in progress	<u>-</u>	<u>57,031</u>	<u>-</u>	<u>57,031</u>
Total nondepreciable capital assets	<u>118,307</u>	<u>57,031</u>	<u>-</u>	<u>175,338</u>

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2005</b>
Depreciable capital assets:				
Land improvements	\$ 1,475,900	\$ -	\$	\$ 1,475,900
Buildings and improvements	8,839,779	29,470	(637,199)	8,232,050
Equipment and furniture	<u>2,190,128</u>	<u>254,897</u>	<u>(88,500)</u>	<u>2,356,525</u>
Total depreciable capital assets	<u>12,505,807</u>	<u>284,367</u>	<u>(725,699)</u>	<u>12,064,475</u>
Less accumulated depreciation				
Land improvements	716,443	73,795	-	790,238
Buildings and improvements	3,182,596	180,076	(416,999)	2,945,673
Equipment and furniture	<u>1,784,991</u>	<u>124,611</u>	<u>(56,030)</u>	<u>1,853,572</u>
Total accumulated depreciation	<u>5,684,030</u>	<u>378,482</u>	<u>(473,029)</u>	<u>5,589,483</u>
Total capital assets being depreciated, net	<u>6,821,777</u>	<u>(94,115)</u>	<u>(252,670)</u>	<u>6,474,992</u>
<b>Government activities capital assets, net</b>	<b><u>\$ 6,940,084</u></b>	<b><u>\$ (37,084)</u></b>	<b><u>\$ (252,670)</u></b>	<b><u>\$ 6,650,330</u></b>

For governmental activities, depreciation expense was charged to functions as follows:

Instruction	\$ 223,305
Supporting Services	128,684
Food	15,139
Athletics	<u>11,354</u>
<b>Governmental activities depreciation expenses</b>	<b><u>\$ 378,482</u></b>

For governmental activities, a capital asset impairment loss was recorded, as a special item, in the amount of \$211,376 due to the closure of a former elementary school. The property was sold in July of 2005.

### 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

	<b>Internal Balance</b>	
	<b>Due from</b>	<b>Due to</b>
General Fund	\$ 1,181,717	\$ 1,570,520
1995 Debt Service	119,921	109,036
Nonmajor Funds	<u>532,593</u>	<u>154,675</u>
<b>Total</b>	<b><u>\$ 1,834,231</u></b>	<b><u>\$ 1,834,231</u></b>

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

Transfers primarily reflect subsidies allocated from the General Fund for debt service, capital project and special revenue fund operations. Transfers out of the 1995 Debt Service Fund were made to the 1999 Debt Service Fund to provide resource to service the 1999 Bonds.

	<b>Transfers</b>	
	<b>In</b>	<b>Out</b>
Interfund Transfers		
General Fund	\$ 57,985	\$ 354,021
1995 Debt Service	-	403,685
Nonmajor Funds	<u>757,706</u>	<u>57,985</u>
<b>Total</b>	<b><u>\$ 815,691</u></b>	<b><u>\$ 815,691</u></b>

### 7. DEBT

The following is a summary of debt transactions of the School for the year ended June 30, 2005:

	<b>Short-term Debt</b>		
	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Balance June 30, 2005</b>
School bond/notes maturing (September 13, 2004) with an interest rate of 1.50% (operating cash flow)	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$(1,000,000)</u>
			<u>\$ -</u>

Long-term debt at June 30, 2005 is comprised of the following:

	<b>Long-term Debt</b>			
	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2005</b>
General obligation bonds				<b>Due within one year</b>
1999 Refunding Bonds payable in annual installments of \$135,000 to \$650,000 plus semi-annual interest from 3.55% to 4.80%; final payment due May 1, 2016.	\$ 6,025,000	\$ -	\$ 135,000	\$ 5,890,000
				\$ 430,000
1997 Energy Conservation – Improvements Bonds payable in annual installments of \$45,000 to \$60,000 plus semi-annual interest from 5.0% to 5.5%; final payment due May 1, 2007.	175,000	-	55,000	120,000
				60,000

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>	<u>Due within one year</u>
1995 Middle School Building Bonds payable in annual installments of \$215,000 to \$275,000 plus semi-annual interest from 5.5% to 5.625%; final payment May 1, 2005.	\$ 275,000	\$ -	\$ 275,000	\$ -	\$ -
Total general obligation bonds	<u>6,475,000</u>	<u>-</u>	<u>465,000</u>	<u>6,010,000</u>	<u>490,000</u>
Other long-term debt					
School bus installment loan payable in varying quarterly amounts up to \$4,002 plus interest of 3.2%; final payments are due through June 2009.	74,293	-	13,926	60,367	14,378
Compensated absences and early retirement obligations.	130,591	996	-	131,587	-
Durant bond obligations payable in varying annual installment of up to \$61,678 plus interest at 4.76%; final payment due November 2013. The School District is only obligated to make annual principal and interest installments to the extent of annual State of Michigan state school aid appropriations for such installments.	<u>157,371</u>	<u>-</u>	<u>-</u>	<u>157,371</u>	<u>11,923</u>
Total other long-term debt	<u>362,255</u>	<u>996</u>	<u>13,926</u>	<u>349,325</u>	<u>26,301</u>
Total debt	<u>\$ 6,837,255</u>	<u>\$ 996</u>	<u>\$ 478,926</u>	<u>\$ 6,359,325</u>	<u>\$ 516,301</u>

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

Following is a summary of future principal maturities and interest requirements:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 516,301	\$ 276,960	\$ 793,261
2007	576,819	274,901	851,720
2008	493,410	231,991	725,401
2009	514,529	211,110	725,639
2010	519,361	189,284	708,645
2011-2015	2,957,318	603,098	3,560,416
2016	<u>650,000</u>	<u>31,200</u>	<u>681,200</u>
	<u>\$ 6,227,738</u>	<u>\$ 1,818,544</u>	<u>\$ 8,046,282</u>

Compensated absences and early retirement obligation and the 1997 Energy Conservation Improvement Bonds are expected to be liquidated by resources from the general fund.

### 8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the School carried commercial insurance and participated in a public entity risk pool. The School has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

#### Public Entity Risk Pool

Hart Public Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

The School District made a contribution of \$41,783 to the Pool for the 2005 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Hart Public Schools received premium refunds of \$4,874 for the fiscal year ended June 30, 2005.

The Pool does not maintain separate funds for members and consequently the School District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### 9. RETIREMENT BENEFITS

#### **Retirement Plan**

##### **Plan Description**

The School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

##### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate as a percentage of covered payroll was 12.99% for July through September and 14.87% for the remainder of the year. The contribution requirements of plan members and the School are established by Michigan State statute and may be amended only by action of the State Legislature. The School's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$1,030,316, \$904,000 and \$914,000, respectively, equal to the required contributions for each year.

#### **Other Post-Employment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).



# HART PUBLIC SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### 10. CONTINGENCIES

#### Federal Grant Programs

The School participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School expects such amounts, if any, not to be material.

### 11. RESTATEMENT

Beginning net assets of the District and beginning fund balances in the governmental funds were decreased by \$59,259 to properly reflect federal grants and other receivables from the prior year.

### 12. SUBSEQUENT EVENTS

Subsequent to June 30, 2005, the district received proceeds of \$1.4 million State of Michigan School Aid anticipation notes due in May 2006. In July of 2005 the district entered into a \$170,000 installment purchase agreement to finance portable classrooms and sold certain buildings and improvements for cash and a promissory note totaling \$105,000.

\* \* \* \* \*

**Hart Public Schools**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**

	<u>Special Revenue Funds</u>	
	<u>Food Service</u>	<u>Athletics</u>
<b><u>ASSETS</u></b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 15,837	\$ 1,644
Due from other funds	-	9,635
Due from other governmental units	246	-
Accounts receivable	-	-
Inventory	8,444	-
	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 24,527</u></b>	<b><u>\$ 11,279</u></b>
 <b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 12	\$ 6,859
Accrued expenses	4,864	4,420
Due to other funds	7,760	-
Deferred revenue	-	-
	<hr/>	<hr/>
Total liabilities	12,636	11,279
	<hr/>	<hr/>
<b>Fund equity</b>		
Fund balances		
Reserved for debt retirement	-	-
Reserved for capital projects	-	-
Unreserved, undesignated	11,891	-
	<hr/>	<hr/>
Total fund equity	11,891	-
	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND EQUITY</u></b>	<b><u>\$ 24,527</u></b>	<b><u>\$ 11,279</u></b>

Debt Service Funds			Capital Projects Funds			Total
Energy Bond	1999 Debt	Durant Debt	Middle School	Durant Projects	Capital Projects	
\$ 2,853	\$ -	\$ -	\$ 12,384	\$ 25,622	\$ -	\$ 58,340
-	265,720	-	-	120,023	137,215	532,593
-	-	177,216	-	-	-	177,462
-	-	-	-	-	30,000	30,000
-	-	-	-	-	-	8,444
<u>\$ 2,853</u>	<u>\$ 265,720</u>	<u>\$ 177,216</u>	<u>\$ 12,384</u>	<u>\$ 145,645</u>	<u>\$ 167,215</u>	<u>\$ 806,839</u>
\$ -	\$ -	\$ -	\$ 1,791	\$ 279	\$ -	\$ 8,941
-	-	-	-	-	-	9,284
2,666	-	-	10,295	128,203	5,751	154,675
-	-	177,216	-	-	30,000	207,216
<u>2,666</u>	<u>-</u>	<u>177,216</u>	<u>12,086</u>	<u>128,482</u>	<u>35,751</u>	<u>380,116</u>
187	265,720	-	-	-	-	265,907
-	-	-	298	17,163	131,464	148,925
-	-	-	-	-	-	11,891
<u>187</u>	<u>265,720</u>	<u>-</u>	<u>298</u>	<u>17,163</u>	<u>131,464</u>	<u>426,723</u>
<u>\$ 2,853</u>	<u>\$ 265,720</u>	<u>\$ 177,216</u>	<u>\$ 12,384</u>	<u>\$ 145,645</u>	<u>\$ 167,215</u>	<u>\$ 806,839</u>

**Hart Public Schools**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>Special Revenue Funds</u>	
	<u>Food Service</u>	<u>Athletics</u>
<b>Revenue</b>		
Local sources	\$ 138,758	\$ 55,488
State sources	32,736	-
Federal sources	317,188	-
	<u>488,682</u>	<u>55,488</u>
Total revenue		
<b>Expenditures</b>		
Current:		
Food Service	430,475	-
Athletic activities	-	320,422
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
	<u>430,475</u>	<u>320,422</u>
Total expenditures		
Revenue over (under) expenditures	<u>58,207</u>	<u>(264,934)</u>
<b>Other financing sources (uses)</b>		
Insurance recoveries	-	-
Transfers in	-	264,934
Sale of capital assets	-	-
Transfers out	(57,985)	-
	<u>(57,985)</u>	<u>264,934</u>
Total other financing sources (uses)		
Net changes in fund balances	222	-
Fund balance, beginning of year, as restated	<u>11,669</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 11,891</u>	<u>\$ -</u>

Debt Service Funds		Capital Projects Funds			Total
Energy Bond	1999 Debt	Middle School	Durant Projects	Capital Projects	
\$ 37	\$ -	\$ 106	\$ 342	\$ 8,161	\$ 202,892
-	-	-	-	-	32,736
-	-	-	-	-	317,188
37	-	106	342	8,161	552,816
-	-	-	-	-	430,475
-	-	-	-	-	320,422
-	-	-	53,910	340,798	394,708
55,000	135,000	-	-	-	190,000
9,455	268,685	-	-	-	278,140
64,455	403,685	-	53,910	340,798	1,613,745
(64,418)	(403,685)	106	(53,568)	(332,637)	(1,060,929)
-	-	-	-	312,761	312,761
64,455	403,685	-	24,632	-	757,706
-	-	-	-	50,980	50,980
-	-	-	-	-	(57,985)
64,455	403,685	-	24,632	363,741	1,063,462
37	-	106	(28,936)	31,104	2,533
150	265,720	192	46,099	100,360	424,190
\$ 187	\$ 265,720	\$ 298	\$ 17,163	\$ 131,464	\$ 426,723

**Hart Public Schools**  
**Food Service Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
Local				
Meal sales	\$ 140,940	\$ 131,956	\$ 137,616	\$ 5,660
Other	300	1,000	1,142	142
Total local sources	141,240	132,956	138,758	5,802
State sources				
State aid	36,110	36,049	32,736	(3,313)
Federal sources				
Federal aid received through the State	264,687	279,167	306,239	27,072
U.S.D.A. Donated Commodities	25,000	25,000	10,949	(14,051)
Total federal sources	289,687	304,167	317,188	13,021
Total revenue	467,037	473,172	488,682	15,510
<b>Expenditures</b>				
Supporting services	446,703	454,875	430,475	24,400
Revenue over (under) expenditures	20,334	18,297	58,207	39,910
<b>Other financing (uses)</b>				
Transfers out	-	-	(57,985)	(57,985)
Net changes in fund balances	20,334	18,297	222	(18,075)
Fund balance, beginning of year	11,669	11,669	11,669	-
<b>Fund balance, end of year</b>	<b>\$ 32,003</b>	<b>\$ 29,966</b>	<b>\$ 11,891</b>	<b>\$ (18,075)</b>

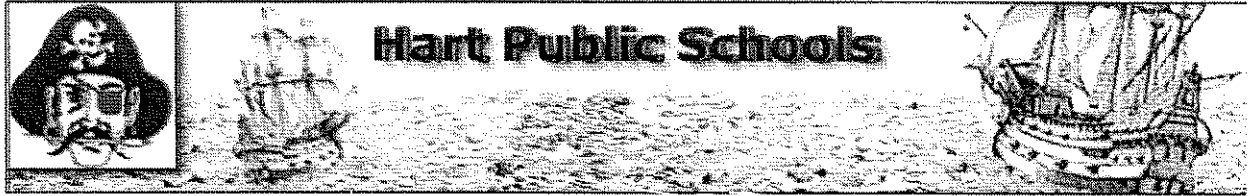
**Hart Public Schools**  
**Athletics Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Local				
Gate receipts	\$ 45,585	\$ 54,716	\$ 49,248	\$ (5,468)
Other	6,125	3,000	6,240	3,240
Total revenues	51,710	57,716	55,488	(2,228)
<b>Expenditures</b>				
Supporting services	306,720	312,726	320,422	(7,696)
Revenue under expenditures	(255,010)	(255,010)	(264,934)	(9,924)
<b>Other financing sources</b>				
Transfers in	255,010	255,010	264,934	9,924
Net changes in fund balances	-	-	-	-
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Hart Public Schools**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2005**

		<b>Student Activities Fund</b>		
		<b>Beginning</b>		<b>Ending</b>
		<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>
				<b>Balance</b>
<b>Assets</b>				
Cash and cash equivalents		\$ 57,869	\$ 231,651	\$ 235,753
				\$ 53,767
<b>Total Assets</b>		<b>\$ 57,869</b>	<b>\$ 231,651</b>	<b>\$ 235,753</b>
				<b>\$ 53,767</b>
<b>Liabilities</b>				
Due to student groups		\$ 57,869	\$ 231,651	235,753
				\$ 53,767
<b>Total Liabilities</b>		<b>\$ 57,869</b>	<b>\$ 231,651</b>	<b>\$ 235,753</b>
				<b>\$ 53,767</b>





**HART, MICHIGAN**

**SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2005**

# HART PUBLIC SCHOOLS SINGLE AUDIT REPORT

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

September 20, 2005

Board of Education  
Hart Public Schools  
Hart, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools, Hart, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Hart Public Schools, basic financial statement and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Hart Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hart Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed an instance of non-compliance that we reported to management of Hart Public Schools in a separate letter dated September 20, 2005.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 20, 2005

Board of Education  
Hart Public Schools  
Hart, Michigan

### ***Compliance***

We have audited the compliance of Hart Public Schools, Hart, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Hart Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hart Public Schools' management. Our responsibility is to express an opinion on Hart Public Schools compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hart Public Schools' compliance with those requirements.

In our opinion, the Hart Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### ***Internal Control Over Compliance***

The management of Hart Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hart Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hart Public Schools as of and for the year ended June 30, 2005 and have issued our report thereon dated September 20, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Hart Public Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

**HART PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended JUNE 30, 2005

FEDERAL GRANT	CFDA #	AWARD AMOUNT	ACCRUED (DEFERRED)		EXPENDITURES (ACCRUAL BASIS)			ACCRUED (DEFERRED) 6/30/2005	
			7/1/2004	PAYMENTS	PRIOR YEAR	CURRENT YEAR	TOTAL		
U.S. DEPARTMENT OF EDUCATION									
Passed Through Michigan Department of Education									
Title I									
041530/0304	84.010	\$ 455,268	\$ (4,841)	\$ 121,339	\$ 329,088	\$ 126,180	\$ 455,268	\$ -	
041530/0405	84.010	31,556	-	31,556	-	31,556	31,556	-	
0515300405	84.010	442,540	-	320,259	-	442,540	442,540	122,281	
		929,364	(4,841)	473,154	329,088	600,276	929,364	122,281	
Migrant									
031830/2003	84.011	123,330	(3,015)	(3,015)	88,572	-	88,572	-	
041830/2004	84.011	115,486	33,710	115,486	32,633	81,776	114,409	-	
051830/2005	84.011	107,939	-	-	-	22,737	22,737	22,737	
041890/0405	84.011	172,031	-	172,031	-	169,157	169,157	(2,874)	
		518,786	30,695	284,502	121,205	273,670	394,875	19,863	
Title II, D									
044290/0304	84.318	8,088	8,088	8,088	8,088	-	8,088	-	
044290/0405	84.318	3,698	-	3,698	-	3,698	-	-	
054290/0405	84.318	11,610	-	11,610	-	8,121	-	(3,489)	
		23,396	8,088	23,396	8,088	11,819	8,088	(3,489)	
Title CSRD									
031870/0304	84.332	105,453	(2,112)	16,813	86,528	18,925	105,453	-	
041870/0405	84.332	109,236	-	109,236	-	88,850	88,850	(20,386)	
		214,689	(2,112)	126,049	86,528	107,775	194,303	(20,386)	
Improving Teacher Quality									
030520/0304	84.367	86,122	86,122	86,122	86,122	-	86,122	-	
040520/0304	84.367	16,059	11,021	16,059	11,021	5,038	16,059	-	
040520/0405	84.367	110,554	-	100,554	-	88,741	88,741	(11,813)	
		212,735	97,143	202,735	97,143	93,779	190,922	(11,813)	
Title VI, Part B - Rural & Low Income Carry-Over									
030660/0304	84.358.B	30,309	30,309	30,309	30,309	-	30,309	-	
Title V LEA Allocation - Innovative Programs									
040250/0304	84.298	3,276	(8,380)	(8,380)	-	-	-	-	
040250/0405	84.298	8,380	-	8,380	-	8,380	8,380	-	
050250/0405	84.298	9,954	-	9,954	-	5,425	5,425	(4,529)	
		21,610	(8,380)	9,954	-	13,805	13,805	(4,529)	
Passed through Muskegon Area Intermediate School District									
Drug Free Schools and Communities Act									
012860DRUG01131 03/04	84.186	11,137	11,137	11,137	11,137	-	11,137	-	
012860DRUG01131 04/05	84.186	10,735	-	-	-	10,531	10,531	10,531	
		21,872	11,137	11,137	11,137	10,531	21,668	10,531	
Passed through Oceana Intermediate School District									
IDEA Flow through Grant									
040450	84.027	24,790	24,790	24,790	24,790	-	24,790	-	
050450	84.027	30,784	-	30,784	-	30,784	30,784	-	
		55,574	24,790	55,574	24,790	30,784	55,574	-	
Passed through Walkerville Public Schools									
Title III - LEP									
040580/0405	84.365	11,782	11,782	11,782	11,782	-	11,782	-	
040580/0405	84.365	17,136	-	-	-	17,136	17,136	17,136	
		28,918	11,782	11,782	11,782	17,136	28,918	17,136	

**HART PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended JUNE 30, 2005

FEDERAL GRANT	CFDA #	AWARD AMOUNT	ACCRUED	PAYMENTS	EXPENDITURES (ACCRUAL BASIS)			ACCRUED	
			(DEFERRED) 7/1/2004		PRIOR YEAR	CURRENT YEAR	TOTAL	(DEFERRED) 6/30/2005	
U.S. DEPARTMENT OF AGRICULTURE									
Passed through Michigan Department of Education									
Bonus Commodities	10.550	\$ 3,919	\$ -	\$ 1,593	\$ -	\$ 1,593	\$ 1,593	\$ -	
Entitlement Commodities	10.550	19,438	-	9,356	-	9,356	9,356	-	
		23,357	-	10,949	-	10,949	10,949	-	
Child Care Food									
041920	10.558	1,094	-	116	978	116	1,094	-	
051920	10.558	1,031	-	1,031	-	1,031	1,031	-	
		2,125	-	1,147	978	1,147	2,125	-	
Child Nutrition Cluster									
041970 Lunch-Breakfast	10.553	6,888	-	6,888	-	6,888	6,888	-	
041970 Lunch-Breakfast	10.553	57,145	-	57,145	-	57,145	57,145	-	
		64,033	-	64,033	-	64,033	64,033	-	
041950 All Lunches	10.555	3,783	-	3,783	4,592	3,783	8,375	-	
051950 All Lunches	10.555	23,153	-	27,287	26,551	27,287	53,838	-	
041960 Free & Reduced	10.555	27,287	-	23,153	27,595	23,153	50,748	-	
051960 Free & Reduced	10.555	161,067	-	161,067	156,574	161,067	317,641	-	
		215,290	-	215,290	215,312	215,290	430,602	-	
041940 Lunch - Special Milk	10.556	141	-	80	61	80	141	-	
051940 Lunch - Special Milk	10.556	860	-	466	393	466	859	-	
		1,001	-	546	454	546	1,000	-	
Direct funding									
041900 Summer Meals	10.559	25,223	-	25,223	-	25,223	25,223	-	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Muskegon Area Intermediate School District									
Head Start									
05CH8258 Operations 2004	93.600	190,999	104,200	190,999	104,200	86,799	190,999	-	
05CH8258 Operations 2005	93.600	175,033	-	-	-	127,196	127,196	127,196	
		366,032	104,200	190,999	104,200	213,995	318,195	127,196	
Passed through Oceana County									
National Forest Reserve	10.665	2,584	-	2,584	-	2,584	2,584	-	
TOTAL		\$ 2,756,898	\$ 302,811	\$ 1,739,363	\$ 1,041,014	\$ 1,693,342	\$ 2,722,537	\$ 256,790	

# **HART PUBLIC SCHOOLS**

## **SINGLE AUDIT REPORT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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#### **NOTE 1 – RECEIPTS AND REVENUE**

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards has been arranged to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

#### **NOTE 2 – GRANT EXPENDITURES**

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors report (7120) reconcile with this schedule.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

#### **NOTE 3 – GRANT EXPENDITURES**

The 2004/2005 Schedule of Expenditures of Federal Awards accrued (deferred) revenue at July 1, 2004 and prior year expenditures have been adjusted to properly reflect grant activity through July 1, 2004. Title I funds in the amount of \$27,234 that were accrued in the prior year, were not collectable.



**HART PUBLIC SCHOOLS, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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**SECTION I – SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes        x   no

Reportable condition(s) identified not considered to be material weaknesses? \_\_\_\_\_ yes        x   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes        x   no

***Federal Awards***

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes        x   no

Reportable condition(s) identified not considered to be material weaknesses? \_\_\_\_\_ yes        x   none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? \_\_\_\_\_ yes        x   no

***Identification of Major Programs***

<b><i>CFDA Number(s)</i></b>	<b><i>Name of Federal Program or Cluster</i></b>
84.010	Title I
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>  \$ 300,000  </u>
Auditee qualified as low-risk auditee?	<u>  x  </u> yes      _____ no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**HART PUBLIC SCHOOLS, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**  
None

**SECTION IV SUMMARY SCHEDULE OF PRIOR AUDIT FINDING**

**Finding #**

- |      |   |
|------|---|
| 04-1 | <u>Corrective Action Taken:</u> Comparability calculations were calculated correctly in the current year so funding could be allocated appropriately.               |
| 04-2 | <u>Corrective Action Taken:</u> The District implemented a policy to determine whether all Title I staff were highly qualified as defined by the State of Michigan. |



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

September 20, 2005

Board of Education  
Hart Public Schools  
Hart, Michigan

In planning and performing our audit of the financial statements of Hart Public Schools for the year ended June 30, 2005, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 20, 2005 on the financial statements of Hart Public Schools.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various personnel, and we will be pleased to discuss it in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations.

Our comments are summarized as follows:

## **STUDENT ACTIVITY ACCOUNTS**

During our audit we noted that the District has implemented a procedure that requires supporting documentation to be attached to any reimbursement request. We noted several instances where there was no supporting documentation attached to reimbursement requests. We suggest that sufficient documentation be attached to every reimbursement request to maintain appropriate internal controls over this process.

## **CONTROL OF CASH ACCOUNTS**

During our audit we noted three bank accounts in the District's name which were not under District management control. These accounts belong to organizations that are fiscally separate from the District, but require the District's participation in order to obtain tax-exempt status. Either the District should obtain control of these accounts or the involved organizations should obtain their own tax-exempt identification number and have their name reported on the related accounts.

We would like to thank the staff of the District for their assistance and cooperation during the audit. We look forward to working with you on future engagements.

This information is intended solely for the use of the Board of Education and management of Hart Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

September 20, 2005

Board of Education  
Hart Public Schools  
Hart, Michigan

We have audited the financial statements of *Hart Public Schools* for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. Professional standards require that we provide you with the following information related to your audit.

**Our Responsibility Under Generally Accepted Auditing Standards, Government Auditing Standards, and OMB Circular A-133**

As stated in our engagement letter dated June 30, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Hart Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Hart Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Hart Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Hart Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Hart Public School's compliance with those requirements.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hart Public Schools are described in Note 1 to the basic financial statements. We noted no transactions entered into by Hart Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Management's estimates of the useful lives of depreciable fixed assets are based on the length of time it is believed that those assets will provide economic benefits into the future. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hart Public School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Hart Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Hart Public School's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board Members and management of the Hart Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

